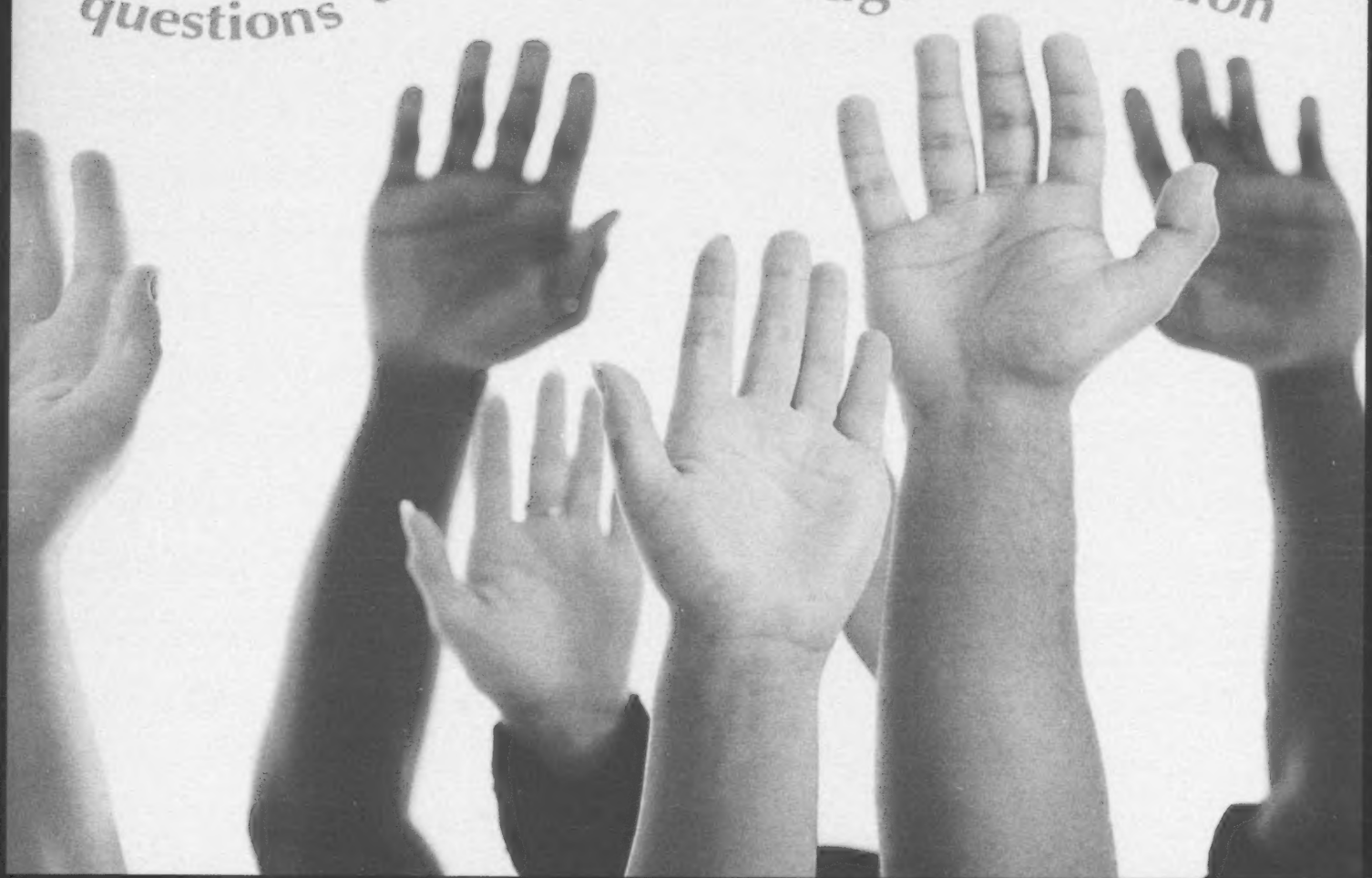
Teachers' Pension Plan

2009 Report to Members



Disclaimer

The information in this report is based on the legislation and Teachers' Pension Plan rules except where otherwise noted.

In the event of any variation between the information in this report and the provisions of the statutes, regulations and plan rules which govern any benefits available under the Teachers' Pension Plan, the latter will prevail.

Trustees' Message

Plan changes bring sustainability to cost-of-living adjustments

In 2009, global economic uncertainty made people more aware of the need for careful retirement planning—and of the value of defined benefit pension plans such as the Teachers' Pension Plan. Our plan's key feature is a secure basic pension you can count on. Yet there were still challenges facing the plan's non-guaranteed benefits (cost-of-living adjustments and subsidized group extended health benefits), and this was a year when our board focused on finding solutions.

We met frequently with the plan partners—the BC Teachers' Federation and the provincial government. We assisted the BC Teachers' Federation with a consultation campaign. We also sent information to employers, retired plan members and active plan members (including teachers, principals, vice principals, directors of instruction, superintendents, assistant superintendents and associated professionals) to help build awareness of how the plan's non-guaranteed benefits are funded.

During the BCTF consultation, active and retired members indicated that cost-of-living increases to their pensions are very important. Since then, the plan partners met to discuss ways to improve the sustainability of cost-of-living adjustments and reached an agreement on a series of changes to the pension plan.

We sent employers a *Communiqué* about these changes and asked them to share it with you. Also, accompanying this *Report to Members* you will find a special letter from our board chair that provides details about the plan partners' agreement and what it means for you.

The changes the board of trustees and plan partners have agreed to implement are:

- increasing active members' contribution rates by an additional one per cent of salary as of July 1, 2010, with this funding going directly to the inflation adjustment account (IAA),

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- redirecting employer contributions that now fund group extended health benefits for retirees so they instead flow entirely to the IAA to pay for cost-of-living adjustments for retirees, effective January 1, 2012,
- as of January 1, 2012, granting cost-of-living adjustments only to retired members who have reached the age of 56, and
- altering the joint trust agreement effective July 1, 2010 so employers will contribute an additional one per cent of salary to the IAA when the plan's basic account is fully funded and the employer contribution rate to the basic account can be reduced as a result.

These significant changes are aimed at strengthening the IAA and the plan's ability to provide cost-of-living adjustments in the future.

Your pension plan remains financially strong. Contributions you make to the plan during your working years are used to provide a basic lifetime pension income you can depend on—one that's secure and guaranteed for life.

We can make this promise because, every three years, an independent actuary analyzes the financial health of our basic account and we adjust contribution rates as necessary. This ongoing,

How the Teachers' Pension Plan is governed

The Teachers' Pension Plan is jointly trusteed and is governed by a joint trust agreement, which is available under Board Publications on the plan's website, tpp.pensionsbc.ca.

Joint trusteeship is the shared management of the pension plan by appointees of the plan partners. The plan partners are the BC Teachers' Federation and the provincial government. The partners are responsible for appointing the board of trustees.

The Teachers' Pension Board of Trustees is responsible for managing the pension plan. The board may change the plan rules if they are directed to do so by the plan partners and certain conditions are met. The board can aiso amend the pension plan rules as long as the changes can be funded by pension fund surpluses or are cost-neutral to the plan. The joint trust agreement sets out conditions for the board to follow in implementing certain changes.

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prudent management ensures members will, upon retirement, receive a pension for the rest of their lives.

The contribution increase mentioned above—one per cent of salary, to go to the inflation adjustment account—will be implemented in conjunction with the separate 1.04 per cent of salary contribution increase for both active members and employers that was announced October 15, 2009 as a result of the 2008 actuarial valuation. Funding from that 1.04 per cent increase, also effective July 1, 2010, will be directed to the plan's basic account to ensure we continue meeting the pension promise that has been made to plan members like you.

We recognize you might have questions about these issues, so we have created a dedicated area on the plan's website, **tpp.pensionsbc.ca**, to provide more information. Click on the button labeled Retirement Benefits: The Plain Facts, or call 1 800 893-7009.

Teachers' Pension Board of Trustees
as of December 31, 2009:

Gerry Tiede, *chair*
Joan Axford, *vice chair*
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Plan Updates

Rules set out for deflation and cost-of-living adjustments

Amendment 13 – Effective March 31, 2009

A new rule amendment sets out how cost-of-living adjustments are affected by deflation, a decline in the Consumer Price Index (CPI) from one year to the next. Retired member pensions will not be reduced in the event of deflation, but the deflation will be recovered before any further cost-of-living adjustments are granted in the future.

Why it matters: Although cost-of-living adjustments are not guaranteed, retired members' pensions are currently adjusted each year according to changes in the CPI. If the CPI increases, the current practice is to increase pensions as well. Up until this year, the CPI had increased every year since 1982. However, in September 2009, the CPI declined by 0.9 per cent. The approach set out in this rule amendment protects retired members' pensions against deflation while ensuring the cost of this measure is recovered in future years when inflation returns to the economy.

Reinstatement of refunds no longer available

Amendment 14 – Effective July 1, 2009

Prior to July 1, 2009, members who had previously taken a refund of their pension contributions had the option of repaying the refund and reinstating the related pensionable service so they could increase their future pension. In 2007, the Teachers' Pension Board of Trustees provided two years' notice to members that this option would be repealed. The deadline to reinstate service in the plan was June 30, 2009.

Why it matters: If you terminate employment with a plan employer, it's important to consider the options available to you with respect to your pension account. If you opt to take a refund of your contributions and later rejoin the plan, you no longer have the option of repaying the refund and reinstating the related pensionable service. Please see the PensionFacts *Terminating employment* under Publications on the plan's website, **tpp.pensionsbc.ca**, for more information.

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Purchase of service rules updated and application deadlines clarified

Amendment 15 – Effective December 18, 2009

This amendment updates the plan rules about purchasing service for unpaid leaves of absence. Previously, employers were required to pay their portion of the pension contributions when an employee purchased service for pregnancy and parental leaves of absence. The new rules add jury duty and family responsibility, compassionate care and bereavement leaves to this list. If you elect to purchase a leave of absence under these provisions, your employer will be billed for their portion of the cost once you have paid your share. These changes clarify employers' responsibilities under the provincial *Employment Standards Act*.

This amendment also clarifies the deadlines for applying to purchase service for unpaid leaves of absence, arrears or non-contributory service. If you take a leave of absence and wish to purchase service for the leave period, you have to apply for the purchase either within five years of returning to work or before you stop working for the employer from which the leave occurred, whichever is earlier.

Finally, the rule change also sets out that if a member applies to purchase service but doesn't pay their portion by a specified deadline, they must reapply if they want to proceed with the purchase. This reapplication is subject to the same timeframes set out above—you have to apply within five years of returning to work or before you cease employment with the employer from which you took the leave, whichever is earlier.

Why it matters: You may be able to increase your future pension by purchasing service for various types of leave. These changes clarify which types of leave are covered, what the deadlines are and when employers are responsible for sharing the cost of pension contributions. See the PensionFacts *Purchasing leaves of absence* at **tpp.pensionsbc.ca** for more information.

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Financial Health

Every three years, an independent actuary assesses the financial health of the plan's basic account and determines whether contribution rates are adequate for funding the plan. The 2008 actuarial report for the Teachers' Pension Plan showed that, as at December 31, 2008, the plan had an unfunded liability for basic pension benefits of $291 million. As a result, plan member and employer contributions will increase by 1.04 per cent of salaries on July 1, 2010 to pay down this unfunded liability. This is in addition to a separate one per cent contribution rate increase for active members, also effective July 1, 2010, to help strengthen the sustainability of cost-of-living adjustments on retired members' pensions.

The next valuation will be as at December 31, 2011, with the results available for the 2012 *Report to Members*.

The Teachers' Pension Plan holds a diversified portfolio of investments that permits prudent management of risk and good long-term investment returns. The following is a summary of the plan's investments, investment performance and financial statement highlights.

Basic Account Investment Asset Mix and Performance

Year ended December 31, 2009

	Approved Range (%)	Actual Asset Mix Market Value (%)	Rate of Return (%)	Performance Benchmark** (%)
Fixed income	**20–40**	**30.0**		
Short-term	0–10	1.3	1.1	0.6
Mortgages	0–10	5.2	7.4	4.9
Nominal Bonds	10–25	18.0	7.3	5.4
Real Return Bonds	0–10	5.5	13.9	14.5
Equity	**60–80**	**70.0**		
Canadian Equities	10–20	15.8	34.9	34.5
US Equities	10–20	15.7	11.0	9.9
International Equities	10–20	15.5	16.5	14.4
Real Estate	10–20	13.5	(7.9)	5.3
Private Placements	0–10	4.5	***	***
Strategic Investments and Infrastructure	0–10	5.0	49.5*	8.0
Total Basic Asset Mix		**100.0**		

* This return is for Canadian Public equities within SIIF only. They make up less than 19% of SIIF.

** Benchmarks are standards to compare against investment returns.

*** Annual rate of return not available.

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Financial Health continued...

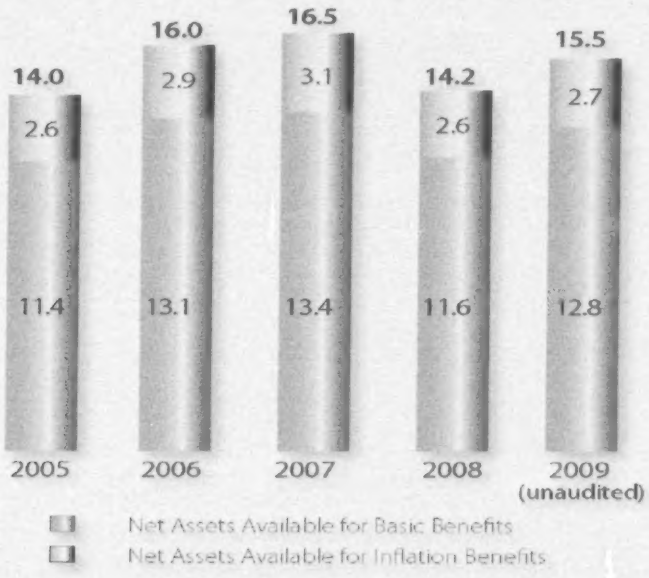
Investment Performance

	Performance Benchmarks*	Actual December 31	
	2009	2009	2008
		(unaudited)	
Market Value ($ Billions)		$15.4	$14.1
Market Value Rates of Return			
Basic Account			
Annual	13.3%	11.2%	(12.8%)
Five-year Annualized	5.6%	5.8%	5.6%
Inflation Account			
Annual	13.3%	10.2%	(12.9%)
Five-year Annualized	5.6%	5.7%	5.8%

* Benchmarks are standards to compare against actual investment returns.

Net Assets Available for Benefits

as at December 31



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Financial Health continued...

Financial Statement Highlights

Year ended December 31

	2009	2008
	$ Millions	
	(unaudited)	
Net Assets—Beginning of Year	**$14,181**	$16,480
Investment Income	**1,553**	(2,068)
Contributions	**592**	580
Benefit Payments	**(842)**	(783)
Investment and Administration Costs*	**(26)**	(28)
Net Assets—End of Year	**$15,458**	$14,181

* See footnote, Investment and Administration Costs.

Investment and Administration Costs as a Percentage of Net Assets*

	2009	2008	2007	2006	2005
Investment Management*	**0.15%**	0.20%	0.26%	0.20%	0.17%
Benefits Administration	**0.06%**	0.06%	0.05%	0.05%	0.06%

* External investment management costs of $6.6 million incurred in the investment pooled funds by wholly owned corporations reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets (2008—$9.1 million; 2007—$16.0 million; 2006—$13.8 million; 2005—$8.4 million).

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Teachers' Pension Board of Trustees

OUR MISSION STATEMENT

"To fulfill the trust the Partners have placed on us by efficiently meeting or exceeding the pension promise made to plan members."

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